

Message Text

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PAGE 01 EC BRU 09442 01 OF 02 022027Z

73

ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SWF-01 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01

SP-02 STR-01 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01

FEA-01 AEC-05 DODE-00 FPC-01 H-01 INT-05 L-02 NSC-05

PM-03 OES-03 SS-15 IO-10 /102 W
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R 021910Z DEC 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7920

INFO ALL EC CAPITALS 111

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 9442

PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION CONSIDERS VARIOUS APPROACHES TOWARD
RECYCLING

REFS: A. EC BRUSSELS 9188

B. EC BRUSSELS 9149

C BONN 18544

1. SUMMARY: THE EC COMMISSION PLANS TO MOVE AHEAD RAPIDLY
IN SEEKING A COMMON EC APPROACH TOWARD THE PROPOSED OECD
RECYCLING FACILITY. THE FINANCIAL DIRECTORATE IS SUGGESTING
THAT THE EC PARTICIPATE AS A UNIT IN THE FACILITY IN ORDER
TO PRESERVE COMMUNITY SOLIDARITY AND TO MAKE THE FACILITY
MORE POLITICALLY PALATABLE FROM THE "EUROPEAN" STANDPOINT.
IT IS TOO EARLY TO ASSESS HOW MUCH SUPPORT THERE IS FOR
THIS SUGGESTION BUT SEVERAL OFFICIALS BELIEVE THE MEMBER
STATES WILL NOT AGREE TO THE COMMUNITY PARTICIPATING AS
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PAGE 02 EC BRU 09442 01 OF 02 022027Z

A UNIT. IN ANY CASE, MOST COMMUNITY FINANCIAL OFFICIALS

BELIEVE THAT FRANCE MUST FIRST AGREE TO A COOPERATIVE APPROACH ON ENERGY BEFORE THE EC CAN ESTABLISH A UNIFIED POSITION ON MAJOR FINANCIAL ISSUES, ESPECIALLY RECYCLING.
END SUMMARY

2. REACTION TO US PROPOSALS: A NUMBER OF SENIOR COMMISSION FINANCIAL OFFICIALS HAVE TOLD US THAT THEY FAVOR THE GENERAL OUTLINES OF THE US INITIATIVES TO SET UP NEW FACILITIES TO RECYCLE PETRO-DOLLARS. HOWEVER, THE FINANCIAL DIRECTOR GENERAL, UGO MOSCA, HAS SOME SPECIFIC RESERVATIONS: (1) AN OECD SUPPLEMENTARY FACILITY SHOULD NOT HINDER THE PRIMARY RECYCLING MECHANISMS THAT HAVE BEEN ESTABLISHED IN THE IMF (AS WELL AS THE SMALL EC FACILITY); KWL THE OECD FACILITY SHOULD USE GUARANTEES RATHER THAN LOANS BECAUSE IT WILL BE DIFFICULT FOR SOME OF THE NINE TO OBTAIN PARLIAMENTARY APPROVAL FOR A LOAN MECHANISM; AND (3) THERE SHOULD BE NO QUOTAS ON PARTICIPANTS' CONTRIBUTIONS BECAUSE THIS WOULD REDUCE THE FLEXIBILITY OF THE FACILITY. MOSCA BELIEVES LIMITS SHOULD BE ESTABLISHED ON THE AMOUNT THAT A GIVEN COUNTRY CAN BORROW. PRESIDENT ORTI, WE ARE TOLD, SUPPORTS THE VIEWS OF HIS FINANCE DIRECTORATE. ORTI WILL REPORTEDLY TAKE THIS MATTER UP WITH THE ENTIRE COMMISSION IN ABOUT TEN DAYS.

3. POSSIBLE COMMISSION APPROACHES: COMMISSION OFFICIALS BELIEVE THERE IS A CONSENSUS AMONG THE MEMBER STATES THAT THE EC SHOULD ADOPT A "HARMONIZED" OR "COORDINATED" APPROACH TOWARD RECYCLING -- BUT THERE IS MUCH LESS SUPPORT FOR A UNIFIED APPROACH INVOLVING PARTICIPATION BY THE COMMUNITY AS SUCH IN LIEU OF NATIONAL PARTICIPATION BY EC GOVERNMENTS. THE COMMISSION FORESEES THREE POSSIBLE APPROACHES. AS A MINIMUM, THE COMMISSION WOULD LIKE TO HAVE THE MEMBER STATES AGREE ON GENERAL PRINCIPLES REGARDING RECYCLING, E.G., THE IMF SHOULD BE THE PRINCIPAL RECYCLING INSTITUTION AND THE OECD FACILITY SHOULD ONLY BE DRAWN ON IF THE IMF'S RESOURCES PROVE TO BE INADEQUATE. AS AN INTERMEDIATE APPROACH, THE COMMISSION WOULD LIKE TO DEVELOP A JOINT EC POSITION
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PAGE 03 EC BRU 09442 01 OF 02 022027Z

REGARDING HOW THE FACILITY SHOULD BE OPERATED. AS A MAXIMUM, THE COMMISSION WOULD LIKE THE NINE TO PARTICIPATE AS AN ENTITY. INTRA-EC CURRENT ACCOUNT BALANCES WOULD BE DISTRIBUTED AMONG MEMBER STATES BEFORE THE COMMUNITY WOULD BORROW FROM THE FACILITY. ACCORDING TO MOSCA, THE EC'S OVERALL NET CURRENT ACCOUNT DEFICIT WILL AMOUNT TO ABOUT \$20 BILLION IN 1975. THUS, THE EC WOULD PARTICIPATE AS A NET BORROWER FROM THE

FACILITY. OFFICIALS NOTE THAT IRRESPECTIVE OF WHAT HAPPENS ON A COMMUNITY APPROACH, THE COMMISSION BASICALLY AGREES WITH THE NEED FOR THE INDUSTRIALIZED COUNTRIES TO ORGANIZE AN EFFECTIVE RESPONSE TO THE OPEC CARTEL. THEY BELIEVE THE EC MEMBERS ARE PREPARED TO MOVE AHEAD RAPIDLY WITH SETTING UP A SUPPLEMENTARY INTERNATIONAL FACILITY.

4. A COMMUNITY APPROACH: MOSCA WANTS TO INSURE THAT, IF FEASIBLE, THE COMMUNITY COORDINATES MEMBER STATES'S FINANCIAL NEEDS AND CONSIDERS THE ECONOMIC CONDITIONS IMPOSED BY THE FACILITY. SOME MEMBER STATES REPORTEDLY PREFER A UNIFIED APPROACH BECAUSE THIS WOULD REDUCE THE POSSIBILITY OF GERMANY ASSUMING A PREDOMINANT ROLE IN THE FACILITY. (COMMENT: THIS VIEW ALSO REFLECTS SOME EUROPEAN CONCERN OVER THE DOMINANT ROLE THE SURPLUS COUNTRIES ARE LIKELY TO HAVE IN THE PROPOSED FACILITY, I.E., THE US AND THE FRG WOULD IMPOSE ECONOMIC CONDITIONS ON THE OTHERS.)

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PAGE 01 EC BRU 09442 02 OF 02 022012Z

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INFO ALL EC CAPITALS 112

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 2 OF 2 EC BRUSSELS 9442

5. TIMING OF PROPOSAL: THE EC MONETARY COMMITTEE

WILL DISCUSS THE VARIOUS EC APPROACHES TOWARD RECYCLING ON DECEMBER 3-4. MOSCA BELIEVES THERE HAS NOT BEEN SUFFICIENT TIME FOR THE DECEMBER 9-10 EUROPEAN SUMMIT TO CONSIDER RECYCLING IN DETAIL BUT THE HEADS OF GOVERNMENT MAY AGREE TO GIVE THE COMMISSION A GENERAL MANDATE TO DEVELOP A COORDINATED POSITION. THE EC COUNCIL (FINANCE) WILL THEN TAKE UP THE ISSUE AT ITS DECEMBER 19 AND JANUARY 20 MEETINGS.

6. LINK BETWEEN ENERGY AND FINANCE: COMMISSION OFFICIALS BELIEVE FRANCE'S REFUSAL TO JOIN THE IEA CREATES PROBLEMS FOR A UNIFIED EC APPROACH TOWARD RECYCLING. THEY INDICATE THE IEA IS PLANNING TO DEVELOP A COMMON ENERGY PROGRAM, THE ADOPTION OF WHICH WILL LIKELY SERVE AS A PRECONDITION FOR BORROWING FROM THE OECD FACILITY. AS A RESULT, COMMISSION VICE PRESIDENT HAERKAMP AND SOME MEMBER STATES, ESPECIALLY THE FRG (SEE REF C), WOULD LIKE THE EUROPEAN SUMMIT TO FOCUS ON FINDING A MEANS BY WHICH FRANCE COULD TAKE ON THE

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PAGE 02 EC BRU 09442 02 OF 02 022012Z

IEA'S OBLIGATIONS. WITHOUT SUCH A COMPROMISE, COMMISSION OFFICIALS IN THE FINANCE AREA SEE LITTLE LIKELIHOOD OF THE EC ADOPTING AN EFFECTIVE JOINT APPROACH ON ANY MAJOR FINANCIAL MEASURE. GERMAN OFFICIALS HERE INDICATE THE FRG REALIZES THAT DOMESTIC POLITICAL DIFFICULTIES PREVENT GISCARD FROM JOINING THE IEA AT THE PRESENT TIME. THUS, THE FRG IS WILLING TO ALLOW FRANCE SUFFICIENT TIME TO WORK OUT ITS APPROACH AS LONG AS GISCARD INDICATES A WILLINGNESS TO ADOPT EVENTUALLY A COMMON APPROACH ON ENERGY.

7. COMMENT: THERE IS SERIOUS DOUBT HERE ABOUT THE FEASIBILITY OF A SINGLE COMMUNITY APPROACH FOR VARIOUS IMPORTANT REASONS NOT THE LEAST OF WHICH IS THAT THE FRG IS NOT LIKELY TO AGREE TO REDISTRIBUTE ALL OF ITS CURRENT ACCOUNT SURPLUS TO MEMBER STATES. IF THE FRG DOES NOT AGREE, THEN THE MAJOR EC DEFICIT COUNTRIES WILL PROBABLY REJECT A UNIFIED APPROACH BECAUSE THIS MIGHT LIMIT THE AMOUNT THEY COULD BORROW FROM THE FACILITY. IN ADDITION, THIRD COUNTRIES WOULD PROBABLY NOT AGREE TO THE EC PARTICIPATING AS A NET BORROWER -- EVEN IF THIS WOULD REDUCE THE OVERALL BURDEN ON THE FACILITY. THUS, THE FINANCIAL DIRECTORATE'S EFFORTS TO OBTAIN THE MEMBER STATES' AGREEMENT TO THE MAXIMUM APPROACH MAY TURN OUT TO BE JUST ANOTHER FRUITLESS COMMISSION EFFORT TO FOSTER COMMUNITY PROGRESS. HOWEVER, FOR THEIR OWN REASONS SEVERAL MEMBER STATES MAY SUPPORT A "UNIFIED" EC APPROACH. IT IS LIKELY, HOWEVER, THAT THE NINE WILL ATTEMPT TO AGREE AT LEAST TO A "HARMONIZED" COMMUNITY APPROACH TOWARD THE PROPOSED FACILITY. END COMMENT. MYERSON

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